

Message Text

CONFIDENTIAL

PAGE 01 KUWAIT 03833 111439Z
ACTION NEA-10

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R 111351Z JUL 77
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC 8481
INFO AMEMBASSY ABU DHABI
AMEMBASSY JIDDA
AMEMBASSY TEHRAN
AMCONSUL DHAHRAN

C O N F I D E N T I A L KUWAIT 3833

WARNING: PROPRIETARY INFORMATION IN THIS CABLE SHOULD BE
PROTECTED.

E.O. 11652: GDS
TAGS: ENRG, KU
SUBJECT: CONVERSATION WITH GULF REGIONAL REPRESENTATIVE

1. SUMMARY: GULF OIL REGIONAL REP., SIDNEY ANDERSON, INFORMED
AMBASSADOR JULY 10 THAT GULF OFFTAKE OF KUWAITI CRUDE FOR
FIRST HALF OF 1977 FELL JUST SHORT OF CONTRACT MINIMUM.
HE NOTED THAT BP SHORTFALL FOR THIS PERIOD, AND PARTICULARLY
SECOND QUARTER, WAS GREATER. ANDERSON ALSO DESCRIBED GULF'S
DIFFICULTIES WITH KUWAIT SHIPPING REQUIREMENTS
UNDER POTENTIAL CONTRACT FOR PURCHASE OF LPG AND INTIMATED
THAT UNLESS GOK WAS MORE FLEXIBLE IN THIS RESPECT GULF
PROBABLY WOULD NOT CONCLUDE CONTRACT TO PURCHASE LPG. END SUMMARY.

2. DURING CALL ON AMBASSADOR JULY 10, GULF OIL REGIONAL REPRESENTA-
TIVE, SIDNEY ANDERSON, PROVIDED INFORMATION ON CURRENT GULF
ACTIVITIES IN KUWAIT WITH RESPECT TO CRUDE OFFTAKE AND
POTENTIAL PURCHASE OF LPG. HE STATED THAT GULF HAD FALLEN
JUST BELOW THEIR MINIMUM (440,000B/D) FOR FIRST SIX MONTHS
OF 1977. HE ALSO INDICATED THAT GULF EXPECTED TO HAVE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KUWAIT 03833 111439Z

DIFFICULTY IN TAKING THE CONTRACT MINIMUM FOR THE YEAR,
SINCE SOME OF ITS FAR EAST ASSOCIATED COMPANIES, ESPECIALLY
IN KOREA, HAVE BEEN SUFFERING LOSSES BECAUSE OF KUWAITI
CRUDE PURCHASES. HOWEVER, GULF APPARENTLY DID BETTER THAN
BP WHICH TOOK ONLY TWO-THIRDS OF THEIR DAILY MINIMUM
(397,000 B/D) DURING SECOND QUARTER OF 1977. WHEN OIL
MINISTRY CALLED BP TO TASK FOR THIS, BP HQ REP. MARSTON-SMITH

CAME FROM LONDON TO INFORM KUWAITIS IN NO UNCERTAIN TERMS THAT BP, WHICH WAS SUFFERING LOSSES IN MARKETING KUWAITI CRUDE, WOULD NOT BE EXPECTED TO MEET ITS QUOTA UNDER THESE CONDITIONS.

3. ANDERSON REPORTED THAT GULF WAS WATCHING CAREFULLY TO SEE WHAT THE FIVE PERCENT INCREASE IN THE SAUDI PRICE WOULD MEAN WITH RESPECT TO ITS MEDIUM AND HEAVY CRUDES WHICH HAD ORIGINALLY BEEN INCREASED IN PRICE ONLY 3.8 AND 3.0 PERCENT RESPECTIVELY ON JANUARY 1.

4. ANDERSON TOLD AMBASSADOR OF DIFFICULTIES GULF WAS HAVING IN TRYING TO REACH AGREEMENT WITH MINISTRY OF OIL ON CONTRACT TO PURCHASE 500,000 TONS OF LPG ANNUALLY. HE NOTED THAT KUWAITI INSISTENCE ON SHIPPING HALF OF CONTRACT TOTAL ON KOTC (KUWAIT OIL TANKER CO.) TANKERS AT AN INFLATED PRICE WAS PRIME OBSTACLE TO CONCLUSION OF CONTRACT. ACCORDING TO ANDERSON, IN AN EFFORT TO BRING ITS SHIPPING RATES DOWN, KOTC WAS PROPOSING TO MINISTRY OF OIL THAT THEIR TANKERS BE VALUED AT DOLS 50 MILLION EACH (BELOW ACTUAL COST) AND THAT RATE BE CALCULATED ON THAT BASIS BECAUSE OF PURCHASER RESISTENCE TO CURRENT ASKING PRICE OF DOLS 47 PER TON. THIS RATE IS DOLS 5.00 OR MORE OVER PROJECTED COST FOR LPG SHIPMENT IN NEW TANKERS WHICH COULD BE CONSTRUCTED IN JAPAN FOR DOLS 33-36 MILLION. (MOREOVER, SOME CHARTERS COULD CURRENTLY BE OBTAINED AT PRICES OF DOLS 25-27 PER TON.)
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KUWAIT 03833 111439Z

APPARENTLY KOTC PROPOSAL, WHICH WOULD RESULT IN REDUCING RATE TO DOLS 42 PER TON, INCLUDES PROVISION FOR MAINTAINING FIRM SHIPPING PRICE FOR FIVE-YEAR PERIOD, PROVIDED THAT MINISTRY OF OIL WOULD AGREE TO COVER ALL KOTC EXCESS OPERATING COSTS DURING THIS PERIOD.

4. ANDERSON SAID THAT GULF STILL FINDS DOLS 42 RATE TOO HIGH, PARTICULARLY IN VIEW OF FACT THAT INCREASED LPG PRODUCTION IN GULF AREA OVER NEXT FIVE YEARS COULD SPARK NEW CONSTRUCTION OF LPG TANKERS, RESULTING IN SHARPER COMPETITION OVER SHIPPING RATES.

5. GULF APPARENTLY WAS ALSO CONCERNED ABOUT BEING TIED TO FIVE-YEAR CONTRACT, WHICH GULF WOULD HONOR (BECAUSE OF OTHER COMMITMENTS IN KUWAIT), BUT WHICH OTHER U.S. COMPANIES, WHO HAVE ALREADY APPARENTLY INITIALLED CONTRACTS PENDING SETTLEMENT OF SHIPPING PRICE, MIGHT NOT CARRY OUT IF THEY BEGAN TO SUFFER LOSSES. (TEXAS EASTERN, NORTHERN NATURAL, PETROLANE AND PHILLIPS ARE SUPPOSED TO HAVE INITIALLED TENTATIVE CONTRACTS).

6. COMMENT: AS DEPT. WILL HAVE NOTED FROM PREVIOUS

EMBASSY MESSAGES, ANDERSON TENDS TO TAKE VERY PESSIMISTIC VIEW OF SITUATION. KUWAIT'S CRUDE PRODUCTION HAS AVERAGED 1.85 MILLION B/D FOR FIRST HALF OF 1977, JUST SLIGHTLY HIGHER THAN 1976 AVERAGE FOR SIMILAR PERIOD. AS REPORTED IN KUWAIT 3684, WE HAVE ALSO HEARD THAT KUWAITIS HAVE RECEIVED INQUIRIES FROM NUMBER OF POTENTIAL NEW PURCHASERS OF THEIR CRUDE. GIVEN GULF'S INTEREST HERE AND CONTINUED ROLE IN SUPPORTING KUWAIT OIL COMPANY, WE BELIEVE THAT GULF WILL CONTINUE TO TAKE AT LEAST THE MINIMUM AMOUNT OF CRUDE IN 1977 PROVIDED UNDER ITS CONTRACT. WE SUSPECT ALSO THAT GULF WILL THINK LONG AND HARD BEFORE DECIDING NOT TO SIGN CONTRACT FOR LPG WHICH WOULD GIVE IT 15 PERCENT OF KUWAIT'S ANTICIPATED ADDITIONAL PRODUCTION, ALTHOUGH PROSPECTS FOR MUCH GREATER AVAILABILITY OF LPG IN THIS AREA OVER NEXT FIVE YEARS MAY CAUSE GULF TO DELAY

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PAGE 04 KUWAIT 03833 111439Z

DECISION ON LPG PURCHASES FROM AREA.
MAESTRONE

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Message Attributes

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